

<

Cashless Society Moving From 'Science Fiction' To Fact?



Thursday, 25 June 2009

From The Times
June 19, 2009

To fight deflation, abolish cash. Could Japan make reality of 'science fiction'?

Leo Lewis Asia Business Correspondent

With recovery elusive, a population doddering into old age and perhaps a decade of deflation in prospect, Japan may start mulling the most radical monetary policy of all — the abolition of cash.

Unorthodox, untried and, said one Bank of Tokyo Mitsubishi strategist, "in the realms of economic science fiction", the recommendation has nevertheless begun floating around Tokyo's corridors of power and economists have described Japan as particularly suitable as a testing ground.

The search for more outré economic policies continues, despite the recent surge in the Nikkei 225 index. The market may be reflecting soaring Chinese investment, rising consumer confidence and other cheerful data but economists see few long-term beacons of hope for Japan.

Other extreme ideas mooted by the financial authorities include a tax on physical currency or introducing one to operate alongside the yen.

All three ideas are based on a theory concerning interest rates and the concept that a nominal rate of zero — as Japan has now lived with for much of the past decade — may be too high. In Japan's case, the theory would suggest that nominal rates of -4 per cent might be closer to what is required to rescue the economy from another deflationary spiral. Having agreed that this might be necessary, the next question is how it could be imposed.

Several MPs in the ruling Liberal Democratic Party believe the abolition of cash, though politically radioactive, might be technically feasible. Richard Jerram, a senior economist with Macquarie bank, told investors that "the proposal has become practical with the broad penetration of electronic money and credit cards in Japan".

He said that all the proposals were radical but worth consideration for Japan. Without physical cash, a central bank can set rates exactly where it likes, runs the argument. Mr Jerram said: "At the heart of the problem of achieving negative nominal interest rates is the idea that physical currency is an anonymous bearer bond with a nominal interest rate of zero." While a central bank can impose positive or negative rates on non-physical assets, transmitting those rates to physical currency is a huge challenge. By permanently removing cash from a system, he added, policymakers are robbed of the excuse that zero is the lowest that nominal rates can go as a deflation-fighting tool.

In theory, many Japanese could easily make the leap into a cashless world. The country has six main competing cashless payment systems, many of them embedded into mobile phones. Including Oyster-type cards issued by public transport companies, industry sources estimate that there are about 120 million cashless payment chips sitting in Japan's wallets and handbags, waiting to be swiped.

Nevertheless, the country remains a wholeheartedly cash-based consumer society. Currency in circulation is about 16 per cent of its GDP, compared with the levels of 2 to 3 per cent in most developed countries. Reducing that 16 per cent to zero would be a wrench but would come with considerable benefits, Mr Jerram said.

But just as Japan's cultural attachment to cash may prove hard to dislodge, some economists believe that the same may be true of

deflation. The country's growing population of elderly people mainly hold cash or cash equivalents and, compared with its US and European counterparts, the Bank of Japan has come under virtually no political pressure to be more belligerent in its war on deflation. It is unlikely, added Mr Jerram, to brook anything as radical as abolishing cash.

Add this page to your favorite Social Bookmarking websites



Close Window